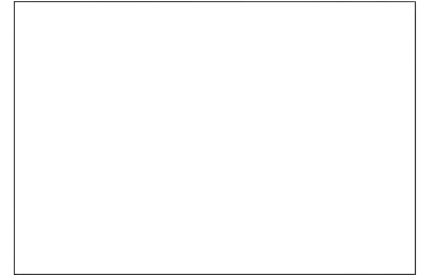




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# **Soviet Military-Economic Planning: The Role of the State Planning Committee**



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**A Research Paper**

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# Soviet Military-Economic Planning: The Role of the State Planning Committee

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## A Research Paper

*Information available as of 1 May 1982  
has been used in the preparation of this report.*

The author of this paper is [ ] of the  
Office of Soviet Analysis. It was coordinated with the  
National Intelligence Council. Comments and  
queries may be directed to the Chief, Effectiveness  
Analysis Branch, Strategic Forces Division,  
SOVA, on [ ]

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**Soviet Military-Economic  
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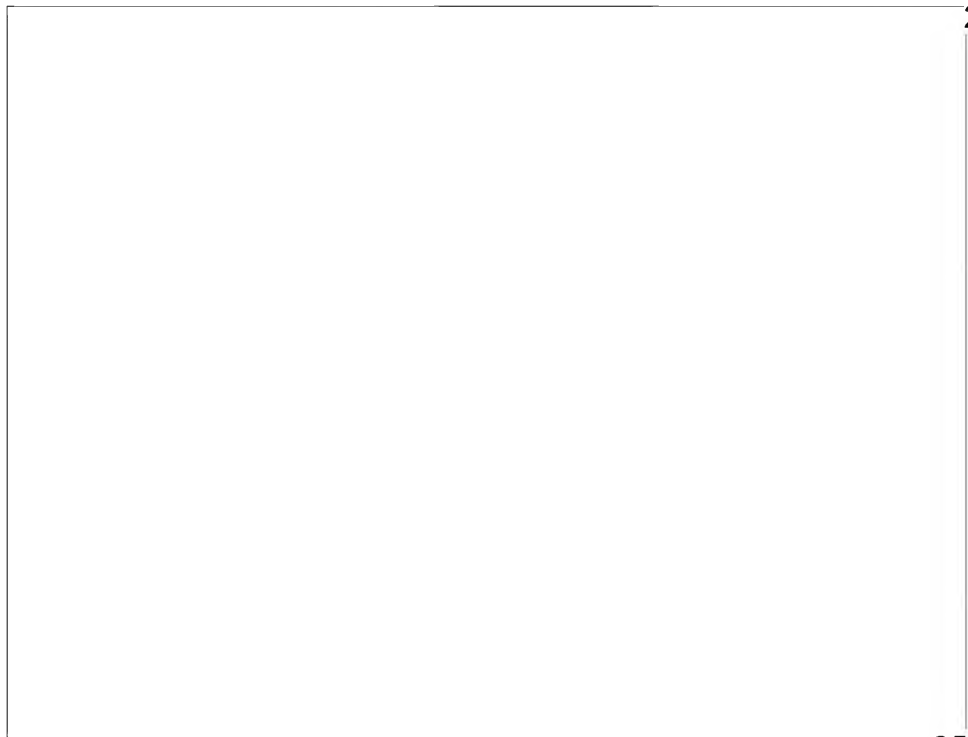
**Overview**

The USSR State Planning Committee (Gosplan) has considerable influence over the content and implementation of Soviet military-economic policy. Soviet leaders determine what overall priority military and civilian claims will have in resource allocation. When making this determination, they obtain Gosplan's assessment of the ability of the Soviet economy to support military requests—documented by the General Staff in defense plans. The leaders then rely on Gosplan to translate usually general policy directives into specific production obligations for Soviet industry. 

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In competing for resources, the military benefits from several features of Gosplan's organization and procedures. Gosplan's military-economic department, which oversees planning in the nine defense industrial ministries, is staffed predominantly with military officers. Their effectiveness in representing defense interests is enhanced by the high priority Soviet leaders accord to military efforts, 


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 Once the military claim on resources has been established, the civil elements of Gosplan and the ministries can, in effect, propose only

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minor revisions (disagreements on major issues can be appealed to the national leadership). In contrast, the General Staff routinely reviews civilian industrial plans and can propose modifications if it believes that military peacetime or mobilization requirements may be jeopardized. 


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After the Supreme Soviet has given the force of law to these detailed plans, Gosplan generally resists adjusting them. This encourages representatives of the various interests to be bold when formulating their initial requirements. When a material shortage or other development during a plan period requires some adjustment, Gosplan directs resources to the affected parties in order of their priority, with the military at or near the top. 

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These advantages, however, do not mean that the military wins every dispute over resources. Gosplan, which must implement all aspects of Soviet economic policy, has been known to challenge the military when its claims conflict with other leadership-sanctioned objectives. Thus, even though defense interests can usually count on high-level support, the military has good reason to maintain a cooperative relationship with Gosplan. 

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If Soviet economic growth slows further in the 1980s, as we anticipate, the military probably will come under increasing pressure from Soviet leaders to justify its requirements. Indeed, to deal with growing economic difficulties, Gosplan's authority in economic planning was recently strengthened, and Gosplan is attempting to introduce advanced planning techniques to better enable its central apparatus to compare alternative uses of resources. We believe, nevertheless, that the military will maintain its commanding position in the Soviet economy. We have no evidence of change in the position and authority of Gosplan's military-economic department, and people who can be expected to be favorable to the needs of the military have been appointed to key positions in Gosplan. 

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## **Soviet Military-Economic Planning: The Role of the State Planning Committee**

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### **Introduction**

The primary organization for directing the USSR's economy is the State Planning Committee (Gosplan). It assesses Soviet economic potential, advises the political leaders on the impact and feasibility of different policy options, prepares elaborate national economic plans to implement the leaders' decisions, and monitors the performance of the economy in fulfilling the plans. Gosplan is the principal technical authority on the Soviet economy's capacity to support military efforts. At each stage of the planning process, Gosplan personnel work to reconcile the competing demands for resources advanced by civilian and military interests.

Gosplan was formed in 1921 to undertake economic research and to prepare general plans as an aid to Soviet leaders in making budgetary decisions. Military interest in detailed military-economic planning led to the establishment of a special directorate within the Red Army Staff in 1924. This directorate coordinated the plans of other military directorates, studied the Soviet economy's ability to support peacetime and wartime military requirements, and worked with Gosplan to ensure the satisfaction of these requirements.

In the late 1920s, Soviet leaders called for more detailed and comprehensive central planning—including military-economic planning. Gosplan established a mobilization section in 1927 and a military-economic department in 1928, which were staffed in part with Red Army officers. Concurrently it prepared the first Soviet five-year plan, which was adopted in 1929.

Shortly after the German invasion in July 1941, the State Defense Committee (GKO)—the wartime equivalent of today's Defense Council—directed Gosplan to prepare an economic mobilization plan for the third quarter of 1941 and, shortly thereafter, to draft the first of a series of wartime economic plans. Gosplan worked with the General Staff, the armed services, and the primary arms producers. To cope

with the new demands, it created departments subordinate to its military-economic department to oversee the newly formed peoples' commissariats responsible for armaments, munitions, shipbuilding, aviation, and tanks. In 1979 Soviet Defense Minister D. F. Ustinov said that during the war Gosplan had been the country's "true military-economic headquarters."

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Since World War II, Soviet maintenance of a large military establishment and defense industry has kept Gosplan heavily involved in military-economic planning. As the Soviet economy has grown in size and complexity, Gosplan has undergone a number of major reorganizations. It has also delegated or shared certain of its planning functions with other agencies. Gosplan has remained predominant, however, in the highly centralized military-economic planning and oversight of defense industrial production.

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### **Gosplan's Role in Soviet Military-Economic Planning**

Gosplan allocates resources for all major civilian- and military-economic activities when it prepares and oversees the implementation of five-year and one-year national economic plans. Allocations to support defense production are based on the general priority given to the military by the political leaders. The allocations also must be consistent with:

- Military procurement goals documented in Soviet defense plans, which are drawn up for the same time periods as economic plans.
- Specific development and production assignments for major weapon systems, documented in decrees issued by the Council of Ministers and the Communist Party Central Committee.

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On the basis of national economic plan obligations, the various ministries, republics, and—ultimately—enterprises draft their individual plans.

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**Gosplan Structure**

Gosplan is organized as a microcosm of the Soviet economy to deal with all economic interests and oversee all economic activity. The Gosplan chairman, Nikolay Baybakov, is a deputy chairman of the USSR Council of Ministers and a full member of the Central Committee. His 15 deputy chairmen are responsible for industrial sectors and functional planning areas. Baybakov, the deputies, and other selected officials form a collegium that reviews major planning issues and the performance of the economy. [ ]

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The Gosplan departments fall into three types:

- *Central planning*, which includes national planning and supply departments and the main computer center. These maintain production and supply planning documents for the entire economy.<sup>1</sup>
- *Functional planning*, which includes the capital investment, finance, labor, and new technology departments. These help prepare plans for the nationwide development of their areas and furnish production planners with data on available resources.
- *Economic sector planning*. Some of these departments oversee planning activities in individual ministries. Others deal with an entire industry, comprising several ministries linked by similar product lines or a major common customer; an example is the department for machine building and metalworking. Such industry departments work through branch departments, each of which corresponds to one of the supervised industrial ministries.

This organizational structure combines program and line management. [ ]

**Interaction With Other Agencies**

Gosplan deals directly or indirectly with every component of the Soviet economy, although to remain effective it attempts to concentrate on issues that involve large resource commitments or affect the national economic plan. [ ]

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[ ] Gosplan's military-economic planning personnel deal primarily with the Military-Industrial Commission (Voyenno-Promyshlennaya Komissiya), the Ministry of Defense, and the party Central Committee apparatus. [ ]

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<sup>1</sup> The basic technique for supply planning involves the use of material balances. The balance is a regularly updated compilation of the sources of and uses for commodities. Sources include current production, stocks, and imports, and uses include industrial consumption (as intermediate product), final consumption (that is, investment), inventory change, and exports. Gosplan itself maintains balances for approximately 2,000 critical commodities. The national-level organ of the State Committee for Material-Technical Supply (Gossnab) maintains balances for at least 7,500 other commodities distributed on a national basis. [ ]

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**Table****Soviet Defense Industrial Ministries**

|  |   |
|--|---|
| Ministry of the Aviation Industry (MAP)                  | Aircraft, aerodynamic missiles, air-to-air missiles, and defensive missiles (tactical and strategic)  |
| Ministry of General Machine Building (MOM)               | Ballistic missiles, surface-to-surface cruise missiles, space launch vehicles, and spacecraft   |
| Ministry of the Defense Industry (MOP)                   | Conventional ground force weapons, solid-propellant ballistic missiles, antitank guided missiles, tactical surface-to-air missiles, high-energy lasers, and optical systems |
| Ministry of the Shipbuilding Industry (MSP)              | Naval vessels, naval fire control systems, mines, torpedoes, submarine detection systems, and merchant ships  |
| Ministry of Medium Machine Building (MSM)                | Nuclear weapons, high-energy lasers, and nuclear propulsion units and power sources   |
| Ministry of the Radio Industry (MRP)                     | Radars, navigation equipment, computers, guidance and control systems, and high-energy lasers   |
| Ministry of Machine Building (MM)                        | Conventional ordnance munitions, fuzing, and solid propellants  |
| Ministry of Electronics Industry (MEP)                   | Electronic parts, components, and subassemblies   |
| Ministry of the Communications Equipment Industry (MPSS) | Communication equipment, radar components, and electronic warfare equipment   |

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**Military-Industrial Commission (VPK).** The VPK oversees major weapon development programs and parallels Gosplan in monitoring production in the nine defense industrial ministries. The two organizations work together to ensure that weapons programs are appropriately reflected in the economic plans and that resources are available. Except when large commitments of resources are involved, Gosplan usually does not concern itself with VPK directives on weapon and equipment design, product mix, or production technology. VPK personnel are sometimes involved with the serial production of established weapon systems.

**The Party Apparatus.** The CPSU apparatus conveys vital policy guidance to Gosplan departments and helps them deal with such economic problems as resource shortages. The CPSU Central Committee has a Department for Planning and Finance Organs that monitors the work of Gosplan and has industrial departments that deal with their Gosplan counterparts. There is a close working relationship, for example, between the party's Defense Industry Department and Gosplan's military-economic department. The parallels in organization enable Gosplan to

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carry internal questions into party channels for a policy decision and enable the party to monitor plan fulfillment. [redacted]

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### **Gosplan's Internal Operating Procedures**

**Central Planning.** The personnel of Gosplan's central departments theoretically have the authority to devise an optimum allocation of resources in accord with government policy and to enforce this allocation. They have the right to evaluate alternative resource applications thoroughly and to compare the performance and capability of all ministries and plants. In practice, however, these departments have too little information, equipment, and personnel to routinely perform such rigorous analysis. They cannot rely exclusively on measures of overall performance, such as sales or profitability, because the administratively set Soviet prices do not provide reliable measures of real production value or cost.<sup>5</sup> And they cannot generate production and supply assignments that are detailed enough to be incorporated directly in national and ministry plans.<sup>6</sup> [redacted]

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Because each of these organizations makes a unique contribution to the defense management process, they generally cannot overrule one another on matters that overlap jurisdictions. Disagreements, which usually reflect their divergent responsibilities, have to be referred to the leadership for a decision. Ultimately, the organizations must reach a consensus, because their directives to industry must be consistent. [redacted]

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### **Military Preeminence in National Planning**

Soviet leaders have traditionally given the military preference in resource allocation. This initial advantage is buttressed by several features of the Soviet planning process, including Gosplan itself. Gosplan's administrators delegate planning responsibilities within the organization, which is highly compartmented for security reasons. The effect of these factors is to:

- Increase the difficulty of evaluating the opportunity cost of a given resource allocation (the value of what would have been produced by a different allocation) and the efficiency of resource use.
  - Encourage all economic interests to be bold when forecasting requirements and levying demands.
  - Make extensive use of political techniques—application of priorities, bargaining, and recourse to higher authorities—for solving economic problems.
- These effects, when combined with military priorities

The central departments' planners therefore leave detailed planning of production and supply to their colleagues in the sector and branch departments. Personnel in these departments check the planning done in the industrial ministries and attempt to issue assignments in sufficient detail to eliminate potential for misunderstanding or evasion. Personnel in other

<sup>5</sup> The Soviet economy is chronically in a state of disequilibrium—that is, prices are not allowed to fluctuate to equate demand with supply. Thus, the sum of the costs of the materials needed to produce an item—its "resource cost"—is a poor indicator of its "opportunity cost," or the value of goods that could be produced with the materials in other applications. [redacted]

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<sup>6</sup> Although the central departments make extensive use of computers, they cannot build and run a model large enough to compute the optimum allocation for the thousands of products that must be planned for at the national level. And even if such a model were technically feasible, the central planners would require much better economic data before they would rely heavily on the model's results. [redacted]

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state agencies, republics, and ministries further elaborate these targets and allocations. As a general rule, when planners see a new problem or a new opportunity, they try to deal with it at the lowest feasible level, whether in Gosplan, the ministries, or the republics. Many resource decisions are made by the individual enterprise concerned, sometimes with participation of a local planning or supply official. [ ]

This pyramid of decisionmaking generally balances, on paper, the nation's resource supplies with the government's production plans. But its main purpose—to ensure that production is carried out in full accord with the leadership's instructions—is not always achieved. Among the many decisions made at lower levels and leading to diversions of manpower, equipment, or materials from the original planned recipients, some involve substantial loss to the sector deprived. Soviet literature, [ ]

[ ] indicates that central planners—and ultimately the leaders themselves—can seldom measure these opportunity costs. Gosplan does not routinely evaluate the range of civilian options foreclosed when specific resource commitments are made in military production programs. [ ]

**Negotiation of Differences.** The authority of Gosplan's central departments is further limited by the political features of the planning process. Gosplan provides a forum for debating and reconciling differences among competing economic interests. The personnel in the industrial departments represent their constituent industries and frequently are hired from the ministries they are to oversee. If central department personnel detect an inconsistency in the plan, they may outline alternatives, but they cannot unilaterally modify a ministry's plan assignments. The issue must be taken up with all concerned departments and managers, and it can also involve party, government, and military officials. [ ]

**Compartmentation.** Finally, security considerations circumscribe Gosplan's procedures, particularly on military-economic issues. Only the top Gosplan managers and the key personnel in the central departments are informed about all Soviet economic activities, and military-economic information is restricted

to Gosplan defense channels. Most Gosplan personnel do not know what resources are channeled to the military. [ ]

#### Preparing Plans

Soviet leaders establish defense spending and program targets early in plan preparation, before other targets are specified. Thus the military is among the first to make specific claims for resources. Receiving these claims, Gosplan determines the industrial assignments necessary to meet them, their general impact on the economy, and the allocation of remaining resources to other claimants. The military-economic department has an important role in this process. It conveys military demands to Gosplan's central departments, defends them, and translates the general targets and allocations (for example, millions of tons of steel) into specific directives incorporated in defense industrial plans. [ ]

If Gosplan had the technical capability to establish and adjust the military and civilian economic plan targets simultaneously, the military advantage might be reduced. Without that capability, this "military-first" approach to plan preparation severely limits possibilities for considering civilian alternatives—even though it does not guarantee acceptance of all initial military demands. Once military requirements are established, Gosplan's civilian departments or the civilian ministries can propose revisions—but only minor revisions are likely to be granted. [ ]

Civilian interests occasionally seek a hearing on major grievances in the Council of Ministers or another leadership body, but they are hindered in building an effective case by difficulty in learning about the defense applications of the contested resources. In contrast, the General Staff routinely reviews civilian industrial planning, and it proposes changes to any allocations that it believes may jeopardize military requirements. [ ]

#### Adjusting Plans to Changing Conditions

If it proves impossible to meet all plan targets and contractual obligations, industrial managers can attempt to compensate within their own operations (by

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adjusting product mix, delaying deliveries, or lowering quality standards) or to negotiate special arrangements with their suppliers or customers. Both options are easier to exercise in civilian matters; their latitude in military R&D and production is quite limited because such activities are:

- Singled out in national and ministry annual plans by detailed specification of production quantities and deadlines.
- Covered by party and government decrees specifying weapon technical characteristics and identifying the responsibilities of all participants in a given weapon program.
- Monitored carefully by VPK and Ministry of Defense officials and on-site representatives.
- Tied closely to financial incentives and career prospects.

For all these reasons, it is usually easier and more remunerative for managers to meet their military plan obligations and adjust their civilian commitments if they must.

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When a manager is unable to compensate within his own operation, he must request a plan adjustment from officials in his ministry; and frequently they must go higher, to Gosplan officials. Soviet leaders and planners recognize that because of planning errors, unforeseen shortages, and policy changes some adjustments inevitably are necessary. The leaders, as a general rule, will agree to change the plan—when the benefits of the change outweigh the costs (the erosion of planning discipline, increased burdens on planners, and the disruption of industrial operations). The planners, however, resist such requests, knowing that a significant change in a single plan can cause an ever-widening series of adjustments in the plans of a whole chain of affected ministries and establishments. During a visit to an organization of the Ministry of Chemical Industry in 1977, Premier Kosygin reportedly stated that the Council of Ministers had to decide a large variety of trivial issues. He added that the Council sometimes is helpless to correct original plan figures because one issue touches on many others, with the only outcome an “endless circle of meetings.”

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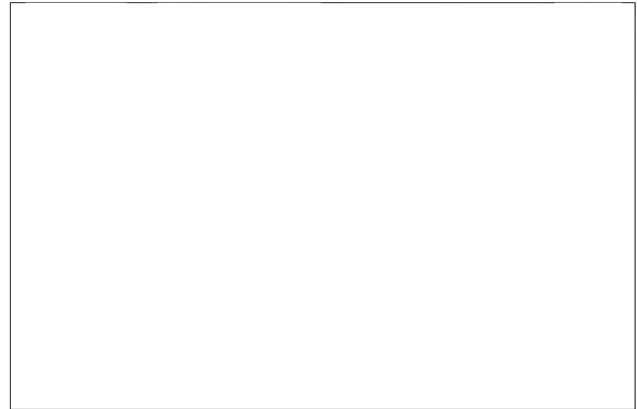
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**Resolving Disputes**

Although Gosplan is organized and operated to facilitate consideration of the views of all economic interests, it frequently must take positions that disappoint some of them. Gosplan personnel routinely face challenges on their interpretations of national policy, their assessments of industrial capabilities, their estimates of the resources required to fulfill plan assignments, and their judgments on specific adjustment requests. They avoid troubleshooting in plants and institutes (unlike military representatives, VPK officials, and regional party officials) but spend considerable time reviewing appeals of decisions made at lower levels in the planning hierarchy. [ ]

Whether Gosplan prevails in a dispute depends on the issue in question and the parties involved. It normally prevails in disputes between itself and a ministry (whether defense or civilian). In any dispute, each side typically enlists allies wherever it can find them, at the highest level it can reach, even among the top leaders. [ ]



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**Outlook for the 1980s**

Gosplan is under great pressure to reverse the recent decline in Soviet economic growth. Brezhnev and other senior officials have been extremely critical, assigning it a major share of the blame for the economy's deteriorating performance. A number of senior Gosplan managers have been dismissed, and others, including Chairman Baybakov, have publicly acknowledged Gosplan's shortcomings. So far, the Soviet leaders' main response to economic difficulties has been to centralize economic decisionmaking even more. In particular, they have strengthened the authority of Gosplan in relation to ministries and other state committees (the specific new powers have not yet been publicly outlined). [ ]

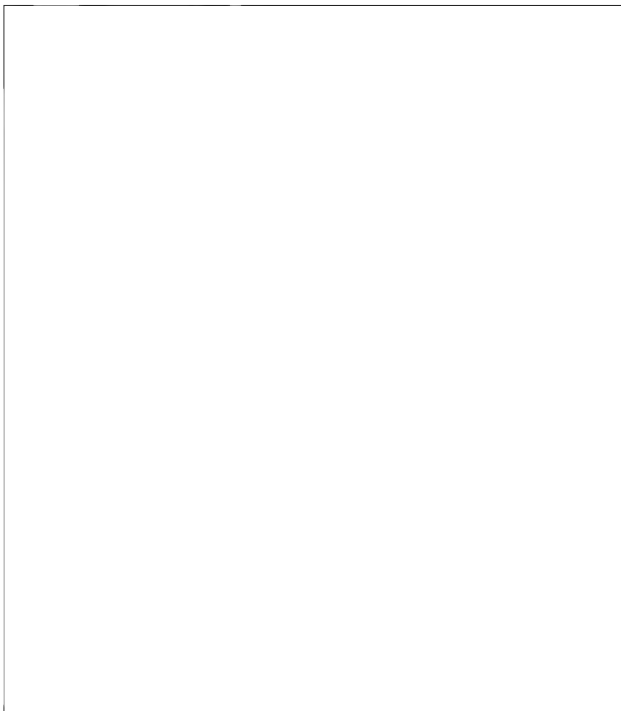
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Concern over slowing economic growth will increase the pressure on policymakers and planners at all levels to channel resources to growth-oriented activities, particularly industrial investment. The military and other defense interests probably will be obliged to prepare even more thorough justifications for their requirements and be prepared to argue their case against the claims of critical civilian problem areas.

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In the competition for resources, Soviet leaders, with Gosplan counsel, clearly will determine the military's overall position. Nonetheless, the specific allocation problems and decisions will be confronted on a daily basis in Gosplan departments, and the interplay of these departments can substantially influence the implementation of Soviet economic policy. The military, therefore, has a strong incentive to retain its influence within Gosplan [ ]

Several changes are taking place within Gosplan that could affect military interests. One is an effort to expand substantially the application of computers and mathematical techniques in planning. This program (to be completed by 1985) is designed to expedite the transfer and processing of a larger quantity of data, to permit more complex calculations, and to create automated linkages between planning centers—Gosplan industrial departments with the central departments, and Gosplan with ministries and republics. It is hoped that these changes will increase the capability of central departments to make comprehensive assessments and thereby enable central planners to better evaluate alternative resource applications. [ ]

The goal of this program, as outlined in Soviet literature, is to enable Gosplan's central departments to issue a more detailed set of targets directly to ministries. This would reduce the authority of the industrial departments—including the military-economic department, if the procedure is extended to military-economic planning. To date, however, planning has been effectively computerized only within individual Gosplan departments. This limited implementation could actually increase the departments' independence from the central departments and thereby have an effect opposite to the one intended. [ ]

A second change is the introduction of a number of new faces in Gosplan management; but the significance of this is not yet apparent. There is no reason to expect that Voronin, the new first deputy chairman for defense, will be any less dedicated to, or less capable in serving, military interests than his predecessor. Indeed, as the former manager of Soviet programs for tank development and production, he has considerable experience in defending military interests in an area where there are important civilian

applications for resources. In February 1979 Ya. P. Ryabov was relieved of his position as party secretary for defense affairs and appointed a first deputy chairman of Gosplan, with apparent general responsibility for several technical and regional economic programs. Explanations for his transfer range from leadership dissatisfaction with his performance to plans for him to succeed Baybakov. About one month earlier a Ryabov protege, N. I. Ryzhkov, was appointed a Gosplan first deputy chairman with responsibility for civilian heavy industry. With these changes, the military may have gained additional sympathetic officials in key Gosplan positions. [ ]

In addition, a major reorganization of Gosplan was completed in the fall of 1981. It is not clear what the reorganization was intended to accomplish or how extensive it has been: [ ]

We do not know if these changes have affected the position and authority of the military-economic department. The military could benefit substantially if that department were given increased control over resources in short supply or over the civilian ministries' production for the military. The military could lose substantially if any measures reduced the insularity of the department. For example, the department could be merged with the civilian Machine Building Department (which deals with ministries having technology and output similar to those of the military), or the central planning departments could be given more authority to deal directly with the branch departments overseeing the nine defense industrial ministries. This would make it easier for civilians to compare civilian and defense industrial use of resources. [ ]

We believe that the military will succeed in maintaining and possibly improving its strong influence within Gosplan. Although Gosplan's future depends on how well it deals with current economic difficulties and accommodates the views of new leaders, continued Soviet adherence to the idea of tight central planning probably rules out major shifts in Gosplan functions. Continuation of the existing military-economic planning organization and procedures will advance the efforts of the Soviet military to maintain a preferential position in the economy. [ ]

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## Appendix

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### The Economic Planning Process

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Gosplan formulates national economic plans for one year and for five years and prepares longer term projections for 10 to 15 years. The five-year plan is ostensibly the basic document charting the course of the economy. Starting with the generalized targets in long-term forecasts, it establishes concrete goals for each year of the period. These goals form the basis for the detailed assignments and allocations contained in the annual national plans (see figure 3). (Annual plans can be adjusted to reflect major developments that occur after the five-year plan is prepared.) Republics and ministries formulate their five-year and annual plans on the basis of the tasks assigned to them in the national plans, while institutes, enterprises, and other facilities formulate plans on the basis of assignments from the ministries. Gosplan receives considerable assistance from other management organs and echelons, which undertake much of the planning detail, but is held responsible for the internal consistency and impact of the entire network of plans.

the process of preparing plans is similar for the five-year and one-year periods. The following discussion focuses on the longer term sequence.

Gosplan begins preparations two to three years before the five-year plan is to come into force. Using macro-economic models of the Soviet economy, it assesses growth prospects and the potential impact of major alternatives in the allocation of resources. These assessments provide the framework for the key economic policy decisions. When the general policy guidance has been established, Gosplan uses these same calculations to formulate preliminary options.

After Central Committee endorsement, Gosplan departments review the plans that have been drafted at the same time by the republics and ministries and begin to calculate supply obligations between industrial sectors and ministries. The departments transmit preliminary assignments (control figures) to the republics and ministries, which then have to revise their draft plans and negotiate compromises with Gosplan. Gosplan ministry departments are most instrumental in the negotiations of the final planning stages when they serve as the conduit for Gosplan instructions and ministry counterproposals.

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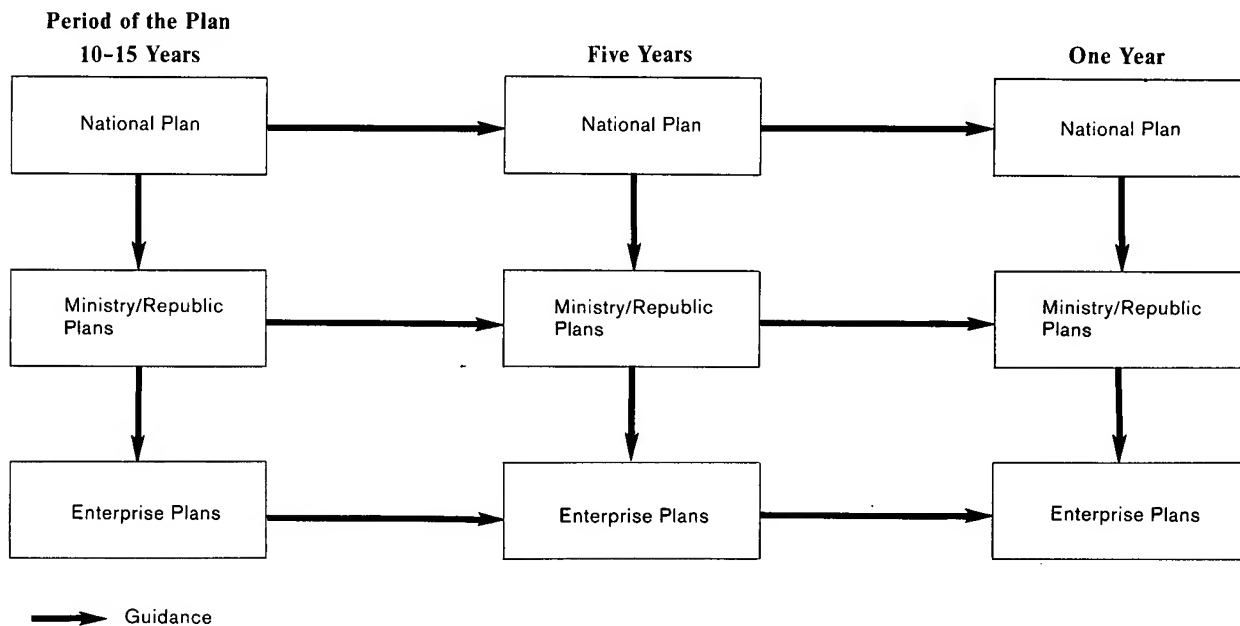
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**Figure 3****Interrelationship of Soviet Economic Plans**

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Final approval of both the five-year and the annual plans rests with the Politburo. This approval is largely a formality, since throughout its preparation the draft is adjusted in accordance with Politburo guidance. When the government legislative arm, the Supreme Soviet, nominally confirms the plans, they have the force of law. Politburo and Supreme Soviet approval are to be completed before 1 January of the year when the plan goes into effect. Policy disagreements or unexpected late developments frequently delay completion of the five-year plan, but the plan for the first year of it usually is approved even if the overall plan is held up. The assignments of the one-year plan will have been prepared to accommodate the anticipated assignments in the draft five-year plan.

The approved five-year and annual plans govern all aspects of Soviet civilian and military-economic activity. Major chapters of the plans are devoted to

production, supply, technology, and finance. The plans stipulate two kinds of objectives:

- Specific degrees of overall performance improvement (such as production growth and cost reduction) for the nation, ministries, and republics.
  - Specific research and production assignments for costly or high-priority projects and products.
- They also stipulate most of the material and financial resources that will be dedicated to meet these objectives.

For additional information on Soviet economic planning, see Alec Nove, *The Soviet Economic System* (London: Allen G. Unwin, 1977); Martin Cave, *Computers and Economic Planning: The Soviet Economy* (Cambridge: Cambridge University Press, 1980); and

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